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Value Added Statement: A Part of Social Responsibility

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Abstract: In this paper I have tried to show how and to what extent, the value added Statement can supplement additional financial information to satisfy all the stakeholders of the enterprise. This study sets out to determine whether sufficient evidence on the usefulness of the statement, from the perspective of the users exists. The paper examines some of the theoretical issues regarding the publication of the value added statement as a voluntary disclosure in the process of accounting communication. The social and economic motivation to use value added reporting is linked to the general process of disclosing financial information in a certain business and cultural environment. In this framework, a question arises about the possible role of the value added statement as a way of accounting communication in the global economy.

Keywords: Value Added Statement, Annual Reports, Voluntary Disclosures, GVA & NVA, Social Responsibility, Value added accounting.

1. Introduction

"Value added is a basic and important measurement to judge the performance of an enterprise. It indicates the manufacturer during a specific period of time. For survival purpose, one has to sell some sort of product or service to earn money or generate income. The product is a utility or value created over the crude material. Value added, is a created utility in the product of the business. Without creating value, one cannot sell the product for a profitable price. A firm charges some extra price over the materials and services used for the value creation over the product.

For example, if Mr. X buys some goods and services at Rs. 100 and sells them to Mr. Y at Rs. 150, then Rs.50 (150-100) is taken as added value. Therefore, Net value= Revenues- The price paid for materials and services.

Actually, value does not come by itself. It needs some changes over the bought-in materials. A change in the utility of product is brought about by Labour, capital, government services etc. Therefore, the added value is to be distributed to the stakeholders of business in the ratio of the service rendered by each of the stakeholders.

Added value is paid in the form of wages and salaries to labour, taxes and duties to government, interest and dividends on the capital and residual fund is retained in the business.

Therefore, the value added is the increase in the market value created by a change in the form, location or availability of product or service, excluding the cost of bought-in materials or services used in that product or services.

2. **Purpose of the Study**

The purpose of this paper is to examine the limits of traditional accounting and to develop and apply an alternative accounting framework called the Expanded Value Added Statement (EVAS). This framework allows organizations to estimate their economic, social and environmental value added. I locate the Expanded Value Added Statement in accounting theory, and particularly reformist accounting theory. I intend to demonstrate that the Expanded Value Added Statement can be effectively applied to nonprofit, for-profit and public-sector organizations to signal an organization's commitment. The present study highlights the theoretical framework of the concept of value added and the Value Added Statement, and the usefulness of such VAS as a supplementary financial statement.

3. **Meaning of Value Added :**

Value added statement is the financial statement which shows how much value (Wealth) has been created by an enterprise through utilization of its capacity, capital, manpower and other resources and how it is allocated among different stakeholders (employees, lenders, shareholders, government etc.) in an accounting period.

Value Added Statement is a statement of Value Added represents the profit and loss accounts in different and possibly in more useful manner. The Value Added Statement is divided into two parts as:

- Value Added arrises at the end and
- Application of such Value Added.

In short, "Value Added is the wealth generated by the entity through the collective efforts of capital providers, management and employees."

The term value added may also be simply defined as a positive difference between the value of goods or services produced (i.e. the value of output) and the value of services purchased (i.e. the value of inputs) form other firms in producing output. In equation form it can be stated as follows :

Value Added (VA) = Value of Output (VO)-Value of Inputs (VI)

4. **The concept of Value Added Accounting:**

The concept of value added is originated in U.S. and the Value Added Statement(VAS) has come to be seen with greater frequency in Europe and more particularly in Britain. In 1975, the Accounting Standard Steering Committee (ASSC0 published the Corporate Report containing the suggestions for British companies to present VAS in addition to the traditional profit and loss account. In India, Britannia Industries Limited and some others prepare VAS as supplementary financial statement in their annual reports. Value Added Statement is now being considered as a broad measure of judging the corporate performance than conventional measures based on traditional accounting system of an enterprise. VAS is regarded as an important part of Corporate Social Reporting (CSR) which provides additional information to satisfy ass stakeholders of the enterprise.

5. Objectives of the study

The present study will be carried out to achieve following objectives :

- To understand the theoretical framework of the concept of value added and value added statements.
- To examine the role of Value Added Statement as a means of performance indicator.
- To establish the relationship between Value Added Statement and corporate social responsibility
- To examine the benefits and limitations of Value Added Statement.

6. Calculation of Value Added :

The value added may be classified into two categories :

- Gross Value Added (GVA)
- Net Value Added (NVA)

Gross Value Added (GVA) : The GVA refers to sales plus income from other services less bought in material and services purchased from outside suppliers ; and

Net Value Added (NVA) : The NVA refers to the difference between GVA and Depreciation. In other words, NVA is the sum of the value added to employees, to providers of loan capital, to Government and to owners.

The majority of Indian companies prefer to present their value added statement as a report on Gross Value Added (GVA) rather than Net Value Added (NVA).

7. **Conclusion :**

Until recently, financial statements were the primary source of information about the financial condition of the company and its value. However, they do not take into account and do not show the participation of all stakeholders in the generated value. Hence the concept of calculating the value added and value added statement have returned. Such report reveals how the value generated by the company is distributed to its stakeholders. Additional information could be relevant indicators built on the basis of value added. It is expected that in connection with the dissemination of the theory of stakeholders and the need for corporate social responsibility reporting, more and more companies and businesses, will publish the mentioned information. It may be concluded that though VAS is very much useful to judge the performance and productivity of an enterprise (Public or Private) for managerial decision making. Finally conclusion is that VAS is very important supplementary statement for all the companies.

8. References

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